McCoy Corporation

ANNUAL REPORT 2006

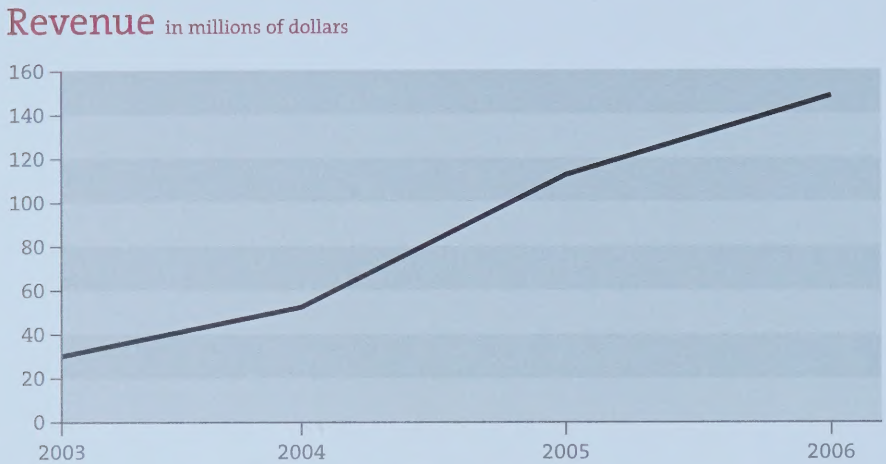
Adding.

Up.

Since 1914, McCoy Corporation ("McCoy" or " the Corporation") has continually added to its service offering, growing from a privately owned, Edmonton-based operation into a public company employing approximately 800 people in Alberta and British Columbia. McCoy continued the trend in 2006, building on its presence in the oil and gas industry and now the oil sands by acquiring Inotec Coatings and Hydraulics Inc. ("Inotec"). A quality-driven organization with state-of-the-art equipment and expert technical staff, Inotec provides large-capacity plating, spray coatings and hydraulic services, and represents a powerful addition to the McCoy group of companies. One that is sure to be a plus for McCoy customers and shareholders for many years to come.

The Corporation has three segments:

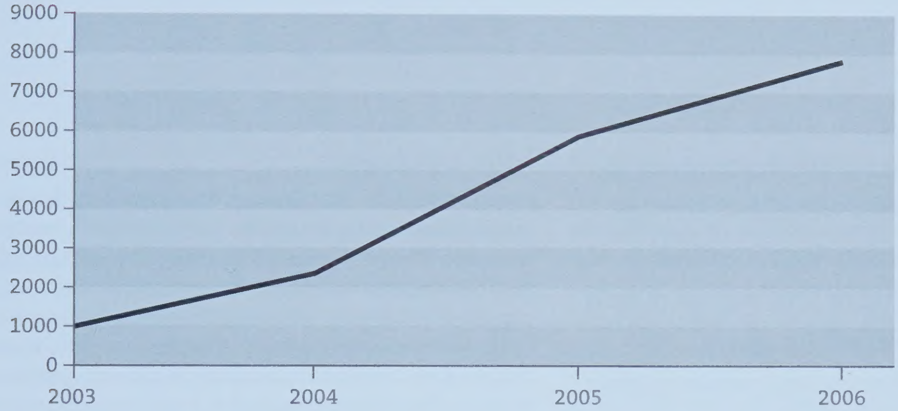
- Truck & Trailer Products & Services
- Trailer Manufacturing
- Oilfield Products & Services



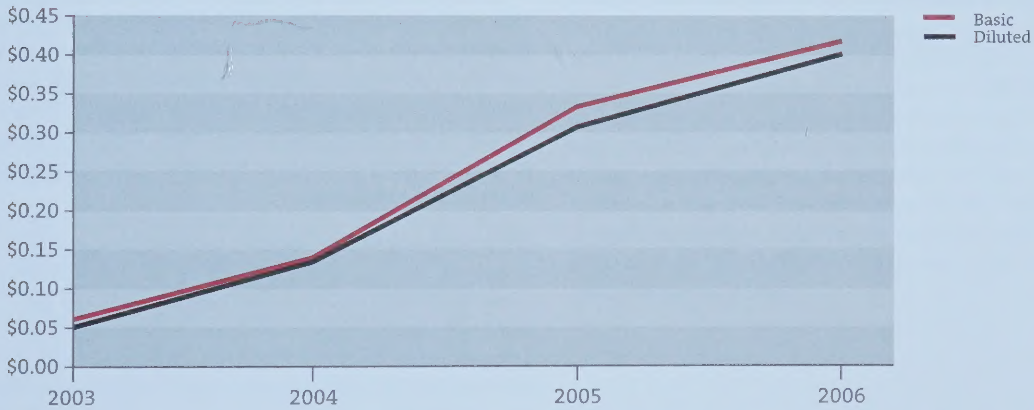
Financial Highlights

Operations (thousands)	2006	2005	2004	2003
Revenue	**147,951**	107,084	52,379	30,786
Net earnings	**7,865**	5,890	2,343	1,004
Operating cash flow	**2,035**	8,460	3,473	800
Per Common Share ($)	**2006**	2005	2004	2003
Net earnings				
basic	**0.42**	0.33	0.13	0.06
diluted	**0.40**	0.31	0.13	0.05
Common shares outstanding	**19,320,338**	18,303,305	17,649,100	17,533,807
Financial (thousands)	**2006**	2005	2004	2003
Working capital	**9,838**	8,106	6,822	4,914
Bank indebtedness	**8,832**	4,507	4,281	280
Long-term debt	**15,168**	2,394	2,200	727
Due to related parties	**–**	–	4,144	1,148
Shareholders' equity	**30,161**	17,477	11,429	8,736

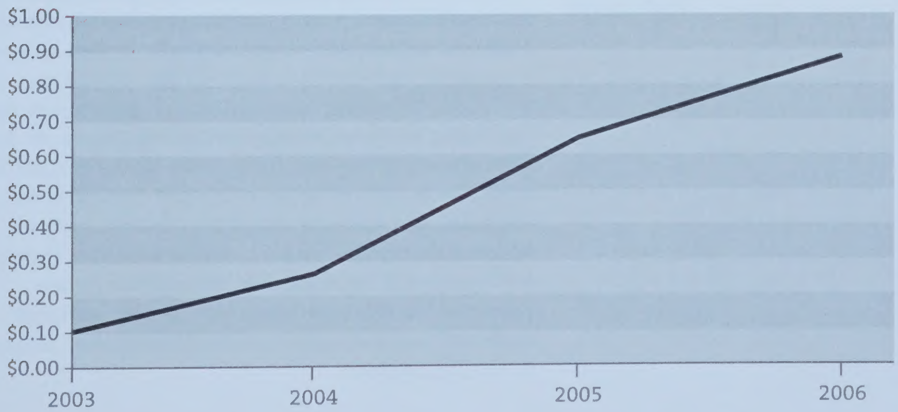
Net Earnings in thousands of dollars



Earnings Per Share



EBITDA Per Share*



* EBITDA is a non-GAAP measurement defined as "Earnings before interest, taxes, depreciation, amortization and stock-based compensation"

Adding Performance and Reliability

"Adding up" is an accurate description of 2006. During the year we added another business, people, technology, markets, revenue – and a bottom line that summed it up very well. Demand for our equipment and services was never greater and all three operating segments experienced both opportunities and challenges resulting from unprecedented activity levels, particularly in the oil and gas industry.

Added opportunities

For some time, the Corporation has considered the non-conventional oil and gas sector, namely the oil sands in Northern Alberta, to present a strategic opportunity for expansion. The oil sands market represents long term opportunities in one of the world's largest oil reserves. Unlike conventional oil and gas exploration, the oil sands operate year round and provide an attractive complement to the cyclical conventional oil and gas industry.

Our acquisition of Edmonton-based Inotec gave us direct entry into the oil sands market in Fort McMurray, Alberta. Inotec is a leading provider of wear and corrosion resistant coatings and specialized hydraulic services and generates 40% of its revenue directly from the oil sands market. In addition to providing hydraulic repair and scheduled maintenance on hydraulic cylinders designed for the world's largest mining shovels, Inotec provides specialized wear coatings to everything from shovel teeth to slurry pipe sections.

The remaining 60% of Inotec's revenue is generated by chroming, honing and shot peening services offered to many industries including conventional oil and gas, mining, pulp and paper and construction. Inotec also enjoys a niche market by refurbishing almost any down-hole tool for conventional oil and gas drilling activities around the globe.

There are excellent opportunities for Inotec to grow with modest investments in capital and people. We look forward to working with Inotec's management team to maximize opportunities in both the conventional and non-conventional oil and gas sectors.

Added people

Like many Western Canadian-based businesses, we have been operating in a very competitive labour market. As a result, we became more proactive and creative in our recruiting and retention initiatives. During 2006, we added skilled trades people to support existing operations and acquired more employees through the Inotec purchase. We also invested in new professional staff members who have added senior management strength to our organization.

Added safety

The Corporation continues to participate in Alberta's Certificate of Recognition ("COR") workplace health and safety program. We currently have six Alberta locations certified with two others preparing to meet the requirements. British Columbia, where we have three locations, does not have a COR program. Nonetheless, we are working to bring these operations in line with Alberta COR standards.

Added efficiency

Our continued implementation of "lean manufacturing" processes was a major factor in 2006 and has begun to show positive results. We are committed to continuously improving efficiencies and moving ever closer to our goal of becoming centres of excellence for manufacturing. We believe our experiences with lean implementations will be an advantage in any manufacturing businesses we may acquire.

Added global market presence

Over 90% of the products produced at Farr Canada, a division of McCoy Corporation ("Farr"), for example, are shipped to customers outside Canada to end users throughout the world supporting both onshore and offshore oil and gas activities. Scona Trailer Manufacturing, a division of McCoy Corporation ("Scona"), is no longer solely reliant on the Western Canadian market as it has seen a steady increase in cross border sales year over year. Peerless Limited ("Peerless") has become the leader in oilfield chassis manufacturing, many of which are later fitted with our customers' custom products and then shipped to other areas of the world. Farr, Inotec, Scona, Rebel and Peerless will be showcased at the 9th Moscow International Oil & Gas Exhibition scheduled for June 2007.

Added up

The end of 2006 showed signs of a contraction in the conventional oil and gas activity in Western Canada and this has now carried over into 2007. The growth we have experienced in our trailer manufacturing segment and Rebel Metal Fabricators Ltd. ("Rebel") over the past two years will be directly impacted by this reduced drilling activity which may cause the Corporation's overall rate of growth to taper somewhat. However, our exposure to international markets through Farr and, to some extent, Inotec, provides a more positive outlook for 2007. Drilling and service activities elsewhere in the world remain strong and management is expecting these businesses to continue their revenue growth throughout the year. In addition to international sales, Inotec is significantly exposed to the oil sands marketplace in Fort McMurray and we foresee excellent opportunities to expand our wear coatings and hydraulics business in this region. And finally, we anticipate stable performance from our Truck & Trailer Products & Services segment. We believe our diversified markets, diligent cost controls and continuous improvement in manufacturing processes will combine for a solid year overall.

Jim Rakievich
President and Chief Executive Officer
March, 2007

Truck & Trailer Products & Services

McCoy Corporation is committed to become the largest heavy-duty specialty truck and trailer repair company in Western Canada providing exceptional customer service and quality.

Revenue for our Truck & Trailer Products & Services segment grew by 15% over the previous year even with the challenges presented by a shortage of skilled labor. The market was very strong throughout the year as the Western Canadian economy drove transportation, construction, mining, and of course, oil and gas activities. Leasing additional land allowed our westend Edmonton service centre to expand and we added heavy duty frame straightening to the services offered by the southside Edmonton location.

Today the Corporation's Truck & Trailer Products & Services segment provides heavy-duty truck & trailer maintenance and repairs and the retail sale of truck and trailer parts. It consists of three entities: The Real McCoy Service Centres, a division of McCoy Corporation ("The Real McCoy Service Centres"), Peerless and Prairie Truck Ltd. ("Prairie Truck").

THE REAL MCCOY SERVICE CENTRES operate four branches in Edmonton and Red Deer in Alberta and Fort St. John in British Columbia.

PEERLESS provides service and retail parts in Edmonton and Grande Prairie in Alberta; Penticton and Prince George in British Columbia.

PRAIRIE TRUCK is an International Truck dealership located in Grande Prairie, Alberta. The Corporation acquired 50% ownership of Prairie Truck in 1997.

Trailer Manufacturing

McCoy Corporation is the industry leader in providing innovative solutions and products for the heavy haul industry across Canada.

The Trailer Manufacturing segment increased revenues by 31% over 2005 with a good portion of the positive results stemming from the implementation of lean manufacturing processes, particularly at Scona's facility. In addition to these improvements, the segment experienced unprecedented product demand throughout the year. In addition to continuous process improvements, Peerless will focus on significant inventory reduction throughout the coming year as it implements a more efficient and cost effective supply chain management system. We expect the major portion of the new system to be completed by the end of 2007.

The Corporation's Trailer Manufacturing segment consists of Scona and Peerless. Together, these business units have a combined track record of 100 years manufacturing heavy-duty trailers.

SCONA produces high-quality, durable heavy-duty trailers for both on-road and off-road applications. These products are manufactured at Scona's facility in Edmonton and include lowboys, flat deck, step decks, oil field floats and specialty trailers.

PEERLESS produces specialized quality logging trailers, low bed trailers and custom chassis for the oil and gas, mining and construction industries.

Oilfield Products & Services

Farr is one of the top three leading power tong manufacturers worldwide.

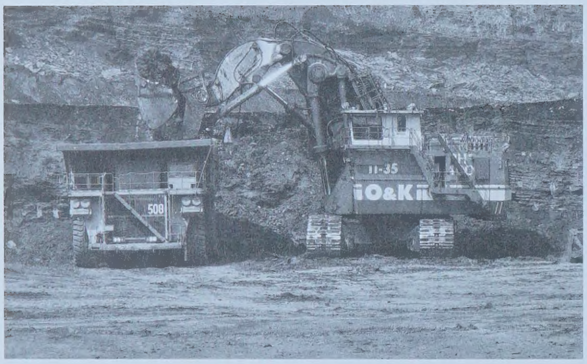
Rebel is one of the top Western Canadian hydrovac and vac tank manufacturers.

The Oilfield Products & Services segment achieved both organic and acquisition growth in 2006. Total revenue for this segment doubled over 2005 with 39% of the increase due to the acquisition of Inotec effective July 31, 2006. The remainder of the increase was achieved through process improvements and strong demand for both Farr's and Rebel's products. In December, Farr delivered the first two top drive units manufactured and marketed by Farr under license.

Over the past few years, the Corporation has made significant progress in the Oilfield Products & Services segment of its business. Through Farr, the Corporation gained a world presence as a manufacturer and supplier of power tongs. The addition of Rebel in 2005 continued to build on the Corporation's strength as a supplier to the conventional oil and gas industry. In July 2006, the Corporation solidified its place in the oilfield and oil sands market by adding Inotec.

FARR manufactures and distributes standard model hydraulic power tongs used in work-over and drilling applications on land and offshore rigs. Farr also custom designs hydraulic power tongs for specialized applications, such as directional or slant drilling, and markets a complete line of hydraulic power units, Kelly spinners, urethane thread protectors and computer-analyzed torque turn systems. Farr's hydraulic power tongs are accredited under the ISO 9002 quality assurance program and recognized worldwide.

REBEL manufactures truck and trailer mounted hydrovac and vacuum tanks for the oil and gas sector at its plant in Red Deer. Rebel also produces other types of vacuum tanks for liquid waste disposal and use by utility companies.



TEREX MINING – REPAIR THE CYLINDERS FOR THE RH400 SHOVEL

CATERPILLAR HAUL TRUCK RATED FOR 360 TONNES

Inotec is the recognized market leader in the application of materials for the prevention of wear, erosion and corrosion, and the manufacturing and servicing of hydraulic components.

Inotec has been serving the needs of Canada's industrial and natural resource sectors since 1986 and provides large capacity plating, spray coatings, and hydraulic services. Inotec offers the following specialized services:

STATE OF THE ART ELECTROPLATING

Inotec is the recognized leader in this area applying the highest quality hard chrome, copper, nickel, selective plating and duplex coatings to all types of oil and gas equipment for the prevention of wear, erosion and corrosion.

HYDRAULIC MANUFACTURING, SERVICE & REPAIR

Inotec's full-service, hydraulic facility is dedicated to the repair, testing and manufacturing of hydraulic equipment and is an authorized repair facility for worldwide manufacturers of large haul trucks and shovels used by major oil sands operators such as Terex Mining Canada, Komatsu and Syncrude Canada Ltd.

CYLINDRICAL GRINDING AND HONING

Inotec provides grinding of spools, honing of control valves, grinding and honing of down-hole drilling tool components as well as the honing of hydraulic barrels and grinding of cylinder rods.

THERMAL SPRAY PROCESSES AND SELECTIVE PLATING

Inotec is the largest thermal spray company in Canada. The cost effectiveness of Inotec's plated and spray coatings product lines allow customers to recycle many of their own products for extended use. The majority of coatings applied are tungsten carbide, ceramic, stainless steels and corrosion resistant alloys.

COMPUTER–CONTROLLED PLASMA TRANSFERRED ARC WELDING (PTAW)

Similar to electron beam and laser welding, PTAW is used to apply precise overlays on parts subject to corrosion, thermal shock, severe abrasion or slurry erosion. Its applications include crusher teeth, screens, all ground engagement equipment in the oil sands market, valve components and down-hole tools to name just a few.

PRESSURE PIPING HARD SURFACING

Pressure piping is used in the hydro transport and tailings systems of the oil sands mines. Overlaid with chromium carbide, pressure piping usually lasts 1 to 3 months; with PTA tungsten carbide they last 9 to 12 months.

HUSKY RIVER DAM SULPHUR CONDENSER TUBESHEET

SHOT PEENING

Inotec can assist in the design of the shot peening application for any down-hole component. This mechanical operation places a compressive stress on the surface of a part drastically reducing the fatigue failure of parts. Down-hole tools susceptible to failure due to cyclic loads do not fail after being shot peened.

INSPECTION AND ANALYSIS

Inotec's laboratory mounts, polishes, etches and photographs cross section samples to show its customers all aspects of the materials it applies. Checking the cross section of the electroplated coating serves to ensure bond, porosity and structure as well as micro hardness.

Management's Discussion and Analysis

The following discussion and analysis should be read in conjunction with the audited Consolidated Financial Statements and associated notes presented on page 25 of McCoy Corporation's ("McCoy" or "the Corporation") Annual Report for the fiscal year ended December 31, 2006. All comparative figures and percentages in this discussion and analysis are between the year ended December 31, 2006 and the year ended December 31, 2005. This Management's Discussion and Analysis is as of March 8, 2007 and provides information on the activities of the Corporation on a consolidated basis and all amounts are expressed in Canadian dollars unless otherwise stated in accordance with Canadian GAAP.

Vision, Strategy and Core Businesses

Our vision is to become the market leader in each of the segments in which we operate. We will endeavour to achieve this through exceptional customer service, operational excellence, organic growth and strategic acquisitions. Our operating segments are as follows: Truck & Trailer Products & Services, Trailer Manufacturing and Oilfield Products & Services. We added Rebel Metal Fabricators Ltd. ("Rebel") at the end of the second quarter of 2005 and Inotec Coatings and Hydraulics Inc. ("Inotec") in the middle of the third quarter of 2006 to our Oilfield Products & Services segment.

The Truck & Trailer Products & Services segment, with eight locations in Alberta and British Columbia, is the Corporation's longest standing business segment. This segment is involved primarily in providing specialized heavy-duty truck and trailer maintenance and repairs, including the retail sale of truck and trailer parts. It consists of four "The Real McCoy Service Centres", with two located in Edmonton, Alberta and one centre located in each of Red Deer, Alberta and Fort St. John, British Columbia. The Peerless Limited ("Peerless") component of this segment carries on retail parts and service operations in Prince George, British Columbia and Edmonton as well as a retail parts outlet in Grande Prairie, Alberta. The Corporation also owns a 50% interest in Prairie Truck Ltd., an International Truck dealership in the business of truck sales, parts and service located in Grande Prairie. Growth of this segment will be undertaken through organic growth, geographic market expansion and the acquisition or start up of new facilities in our specialized service industry. There has been little or no consolidation in Canada with respect to the Corporation's sector of the market.

The Trailer Manufacturing segment consists of Scona Trailer Manufacturing, a division of McCoy Corporation ("Scona") in Edmonton and the trailer manufacturing portion of Peerless located in Penticton, British Columbia. This segment is involved primarily in the manufacture of trailers used in the oilfield, lumber and construction industries. The strategy for this segment is to continue to pursue manufacturing efficiencies for our processes, eliminate waste, reduce inventory, and increase throughput. This segment will pursue growth through geographic market expansion, product development as well as seek acquisition opportunities. The focus in 2007 will also be to continue to develop efficiencies between the two trailer manufacturing divisions and align the internal controls.

The Oilfield Products & Services segment consists of Farr Canada, a division of McCoy Corporation ("Farr"), located in Edmonton, Rebel located in Red Deer and Inotec located in Edmonton. In order to address the demand in its existing geographic markets, and allow for expansion into new geographic markets this segment will continue to implement lean manufacturing techniques to increase capacity. Inotec is aggressively pursuing growth opportunities in the oil sands in Fort McMurray, Alberta. According to the Government of Alberta's *Inventory of Major Alberta Projects*, December, 2006, there are approximately $85 billion in major oil sands projects underway or pending approval. This figure excludes projects under a billion dollars or those in conventional oil, natural gas, pipelines or the thousands of related manufacturing and service-oriented spin-offs associated with Alberta's growing energy industry. Where the opportunity presents itself, the Corporation will continue to pursue growth of this segment through strategic acquisitions.

Financial Highlights

12 Months Ended December 31

	2006 $	2005 $	2004 $
Total revenue	**147,950,782**	107,083,753	52,378,652
Net earnings for the year	**7,864,857**	5,890,476	2,343,374
Basic earnings per share	**0.42**	0.33	0.13
Diluted earnings per share	**0.40**	0.31	0.13
EBITDA[1]	**16,641,573**	11,477,911	5,093,039
EBITDA[1] per share	**0.89**	0.64	0.29
Total Assets	**82,287,882**	41,935,619	35,193,962
Total Liabilities	**52,127,373**	24,458,931	23,944,755
Total Long-term Liabilities	**15,168,720**	2,395,293	6,344,443

[1] *EBITDA is a non-GAAP measurement defined as "Earnings before interest, taxes, depreciation, amortization and stock-based compensation."*

The Corporation's 2006 financial results reflect the continued success of the existing operations, a full year of Rebel results and the purchase of Inotec on August 1, 2006. Revenues in 2006 increased by 38% over 2005 which was a reflection of improved operations in a strong oil and gas market, a full year of results from Rebel and the addition of Inotec which primarily impacted the third and fourth quarter results of 2006. The increase in both assets and liabilities is also a reflection of the purchase of Inotec.

The Corporation's Board of Directors declared and paid quarterly dividends of $0.01 per common share on March 15, 2006, June 15, 2006, September 15, 2006 and December 15, 2006.

Results of Operations

Sales

Sales by Segment	Truck & Trailer Products & Services $	Trailer Manufacturing $	Oilfield Products & Services $	Inter-segment eliminations $	Total $
2006					
Total external sales	**40,356,014**	**65,351,477**	**42,243,291**	**–**	**147,950,782**
Total inter-segment sales	**1,631,067**	**1,460,543**	**–**	**(3,091,610)**	**–**
Total sales	**41,987,081**	**66,812,020**	**42,243,291**	**(3,091,610)**	**147,950,782**
2005					
Total external sales	36,117,485	49,916,658	21,049,610	–	107,083,753
Total inter-segment sales	301,511	954,695	510	(1,256,716)	–
Total sales	36,418,996	50,871,353	21,050,120	(1,256,716)	107,083,753
Percentage Change	+15%	+31%	+101%		

All three segments of the Corporation saw an increase in sales in 2006. The Truck & Trailer Products & Services segment enjoyed increased revenues in the amount of $5,568,085 from $36,418,996 to $41,987,081. The Real McCoy Service Centres sales represent almost half of the increase with the other half attributable to Peerless and Prairie Truck. This is due mostly to an increase in the Western Canadian oil and gas sector activities as well as increased selling prices for the labour. The Trailer Manufacturing segment saw an increase of $15,940,667 from $50,871,353 to $66,812,020. This is due to increased throughput at both Scona and Peerless. Scona has now been implementing lean practices since the summer of 2005 and Peerless began its implementation at the beginning of 2006. The demand for trailers necessitated the need to improve our processes so that more units can be manufactured in less time. We are already seeing the benefits of this implementation. Our oil and gas customers continued to purchase capital equipment as the industry flourished. Revenues of the Oilfield Products & Services segment increased $21,193,171 from $21,050,120 to $42,243,291 over the prior year for two reasons. The purchase of Inotec resulted in 40% of the increase. The remaining increase is due to the continued efforts in this segment to implement lean manufacturing enabling an increase in throughput. We expect the Truck & Trailer Products & Services segment to show modest increases in 2007. The Trailer Manufacturing segment has softened in 2007. We expect the Oilfield Products & Services segment revenues to increase as order books remain strong and a full year's results of Inotec are reported. This segment operates mostly internationally and in the non-conventional (oil sands) oil and gas market which is not expected to feel the same pressures as the conventional domestic market.

Gross Profit

	2006 $	2005 $
Gross Profit	**44,533,530**	32,249,957
% of Total Sales	**30.10%**	30.12%

Gross profit increased by 38% or $12,283,573 in 2006. This relates directly to the increase in revenues. Consolidated gross margin as a percentage of sales saw virtually no change compared to 2005. We expect a 30% margin to continue into 2007. All segments are experiencing an increase in direct labor costs as the ability to attract and retain skilled trades people continues to become more difficult. We will attempt to mitigate any increases through our ability to improve processes in order to maintain the margin. Costs have stayed proportionate to revenues as rising labour rates were offset by manufacturing efficiencies.

Salaries & commissions

Salaries increased $4,441,871 or 33% to $17,715,872 compared to $13,274,001 in 2005. This has increased for three reasons. Firstly, 2005 included seven months of Rebel compared to a full year in 2006. Secondly, there were five months of Inotec in 2006 compared to nil in 2005. Thirdly, the balance of the increase is due to an increase in commissions as higher sales were achieved and the addition of more staff. This trend will continue into 2007 as a full year of results for Inotec is reported.

Operations

Operations expenses were $8,958,827 versus $6,591,058 in 2005. This represents an increase of $2,367,769 or 36%. Approximately 55% of the increase relates to the Rebel and Inotec operations. The balance of the increase relates to additional equipment repairs required as well as an increase in utility expenses as production volumes increased. This trend will continue into 2007 as a full year of results for Inotec is reported.

Amortization

Amortization expense of $2,525,604 represents a $1,032,694 or 69% increase from amortization expense of $1,492,910 in 2005. Twenty-six percent of the increase relates to a full year's results for Rebel and the addition of Inotec in August 2006. The balance of the increase is a direct result of the increase in capital assets in the Trailer Manufacturing and Oilfield Products & Services segments. The Corporation's decision to invest in equipment in order to increase manufacturing throughput and satisfy higher demand for the Corporation's products necessitated the need for new equipment. This trend is expected for 2007. In particular we will monitor capital expenditures for 2007 and retract them in certain areas of our business if the markets weaken.

Corporate Services

Corporate service expenditures increased $367,101 or 466% to $445,956 compared to $78,855 in 2005. This increase related to an increase in corporate development costs, audit and legal fees, as well as the reversal of an accrual of $279,000 in 2005 of a lawsuit that is not determinable as to the outcome and, if any loss was incurred, would partially be covered by the Corporation's insurance. This trend is expected for 2007.

Selling

Selling expenses increased by $57,555 or 7% to $876,231 from 2005's $818,676. In terms of a percentage of sales, this was a nominal change. The increase in expenditures relates solely to the addition of Inotec. Order books remained strong throughout the year leaving selling expenses at a minimum. We do not expect this trend to continue in 2007 as order books begin to decline from our domestic oil and gas customers and additional marketing initiatives are required.

Interest on Debt

Interest on debt of $1,298,413 represents a $559,797 or 76% increase from interest expense of $738,616 in 2005. The Corporation took on additional debt in the purchase of Inotec resulting in this increase on interest charges in 2006. We should start to see a decrease in this expense in 2007 as principal amounts are repaid.

Stock-based compensation

Stock-based compensation of $630,271 represents a 129% increase from $275,085 over the prior year. This level of expense will continue in the coming year unless additional stock options are granted where the expense would then increase.

Summary of Quarterly Results (000's)

	2006					2005				
	Mar 31	**June 30**	**Sept 30**	**Dec 31**	**Total**	Mar 31	June 30	Sept 30	Dec 31	Total
	$	**$**	**$**	**$**	**$**	$	$	$	$	$
Total revenue	**32,993**	**34,034**	**37,781**	**43,143**	**147,951**	21,602	26,337	29,340	29,805	107,084
Net earnings	**2,367**	**1,405**	**1,842**	**2,251**	**7,865**	893	1,705	2,226	1,066	5,890
Basic earnings per share	**0.13**	**0.08**	**0.10**	**0.12**	**0.42**	0.05	0.10	0.12	0.06	0.33
Diluted earnings per share	**0.12**	**0.07**	**0.08**	**0.11**	**0.40**	0.05	0.09	0.12	0.05	0.31

The second and third quarters in 2006 saw decreased net earnings due to the addition of capital equipment and the addition of new staff. It took time to get the equipment operating efficiently and the staff trained. This was accomplished during the fourth quarter as can be evidenced by the increase in net earnings. The basic earnings per share amount was expected to be higher in the fourth quarter. However, with the issue of additional shares on the Inotec purchase in the third quarter in 2006 this did not occur. The diluted earnings per share increase in the fourth quarter was due to stock options and warrants granted in 2006 falling out of the money.

Fourth Quarter

	2006	2005
	$	$
Revenue	**43,142,581**	29,804,657
Net Earnings	**2,252,284**	1,066,935
Basic Earnings per share	**0.12**	0.06
Diluted Earnings per share	**0.11**	0.05
Cash flows from operations before net change in non cash working capital items	**3,009,884**	2,073,454
Cash flows from operations before net change in non cash working capital items per share	**0.16**	0.12

The fourth quarter of 2006 saw an increase in revenue of $13,337,924 over the fourth quarter of 2005. Approximately 38% of the increase is due to Inotec revenues not present in 2005. The balance of the increase relates to increased throughput of the Trailer Manufacturing and the Oilfield Products & Services segments due to the realization of manufacturing efficiencies. The Truck & Trailer Products & Services segment continued to increase sales as the oil and gas industry remained strong. Cash flow from operations before net change in non-cash working capital items increased by $1,355,421 over 2005 because the 2005 results were negatively impacted by the "lean manufacturing" undertaking that took place in the months of November and December 2005 at Farr. Much of the productive labour time in November and December 2005 was spent reorganizing the plant in order to increase throughput which began in the early part of 2006.

Liquidity and Capital Resources

	2006	2005	2004
	$	$	$
Cash provided by operating activities	**2,035,080**	8,459,981	3,472,716
Cash provided by (used in) financing activities	**15,415,006**	(3,309,713)	8,334,327
Cash provided by (used in) investing activities	**(17,172,314)**	(4,750,032)	(11,926,111)

Cash flow from operations in 2006 decreased by $6,424,901 or 76%. Most of this decrease related to increased inventories as the segments increased throughput. Increase in cash flows from financing in 2006 compared to 2005 was due to increase in additional debt taken on to fund the acquisition of Inotec. The purchase of Inotec was paid mostly with debt financing and the purchase of new equipment in order to increase throughput was partially financed as well. Cash used in investing is again due to the purchase of Inotec and

property, plant and equipment. Both the acquisition and the property, plant and equipment were higher investments than in prior years.

Management believes that, with the projected level of operations for 2007 and the availability of funds under the established credit facility, the Corporation will have sufficient capital to fund its operations.

Debt to Equity Ratio over the past 3 years

2006	2005	2004
1.73 to 1	1.40 to 1	2.12 to 1

The debt to equity ratio fluctuates as the Corporation completes acquisitions and alternate forms of financing are used. The Corporation has taken a conservative approach as it relates to its use of debt to finance operations and will continue to do so in the coming year.

Financial Instruments

The fair values of cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, and floor plan financing approximate their carrying values due to the short terms to maturity.

The fair values of the mortgage receivable, long-term debt, obligations under capital lease and advances from related parties approximate their carrying values since their stated interest rates approximate the market interest rates at December 31, 2006 and 2005.

The Corporation's debt consists of loans that are subject to interest rate fluctuation. A 1% increase or decrease in the prime lending rate would result in a $234,000 change in the annual interest costs.

The Corporation is exposed to credit risk through its accounts receivable. This risk is minimized with the Corporation's large customer base. The Corporation manages credit risk by following a program of credit evaluation and by limiting the amount of customer credit where deemed necessary.

The Corporation has U.S. dollar denominated rules and therefore is exposed to foreign exchange fluctuations. This risk is minimized because the Corporation also purchases raw materials and components used in manufacturing in US funds.

The Corporation has no off balance sheet financial instruments.

Contractual Obligations

In its continuing operations, the Corporation has from time to time entered into long-term contractual arrangements for its operational facilities and debt financing. The following table presents contractual obligations arising from the arrangements currently in force over the next five years and thereafter:

(000's)	Total	2007	2008	2009	2010	2011	Thereafter
	$	$	$	$	$	$	$
Operating lease obligations	13,001	2,607	2,311	2,154	2,031	1,752	2,146
Obligations under capital leases	3,064	1,173	1,042	849	–	–	–
Long-term debt	1,162	150	150	150	150	150	412
Term loan	5,600	1,200	1,200	1,200	1,200	800	–
Subordinate debt	5,600	1,200	1,200	1,200	1,200	800	–
Total	28,427	6,330	5,903	5,553	4,581	3,502	2,558

Capital Resources

The Corporation has approved capital expenditures in for 2007 in the amount of $4,591,000. The nature and purpose of these expenditures varies but is mostly equipment purchases. The expected source of funds will come from either working capital or our equipment financing revolving lease line of which $4,550,000 is available at this time.

Transactions with Related Parties

Sale-leaseback
On May 1, 2003, the Corporation sold all of its existing land and buildings for $5,793,000, measured at appraised fair market values. A vendor take-back second mortgage for $700,000 was granted to the purchaser. The sale resulted in a gain of $1,531,206 which will be added to income over the 15 year term of the leases described below. Amortization of $100,563 is included in income during 2006 (2005 - $102,081).

On May 1, 2003 the Corporation entered into lease agreements whereby the buildings will be leased for a period of 15 years. Minimum annual lease payments are $680,620 for the first five years, $751,459 for the following five years and are to be renegotiated at market rates for the last five years of the lease.

The purchaser and lessor is a partnership owned by certain directors and an officer of the Corporation. These individuals are also directors of Foundation Equity Corporation.

Operating Lease
In February 2003, the Corporation entered into a lease for another building from a partnership owned by certain directors and an officer of the Corporation. These individuals are also directors of Foundation Equity Corporation. The minimum annual lease payments are $232,000 for the next 11 years.

In October 2004, the Corporation entered into a lease for another building from a wholly owned subsidiary of Foundation Equity Corporation. Minimum annual lease payments are $262,500 for the next five years, $288,750 for the following five years and are to be renegotiated at market rates for the last five years of the leases.

The Corporation believes it has no undue exposure due to the rising real estate market as the Corporation benefits from predetermined lease rates.

Outstanding Share Data

As at March 8, 2007 the following class of shares and equity securities potentially convertible into common shares were outstanding:

Common shares	19,317,638
Convertible equity securities	
Stock options	955,502
Warrants	200,000

Upon exercise, the stock options and warrants are convertible into an equal number of common shares. Had the stock options and warrants been fully exercised the aggregate number of common shares outstanding at March 8, 2007 would be 20,473,140.

For details relating to the stock options and warrants, please refer to Note 14 of the 2006 audited consolidated financial statements.

Financial Guarantee

The Corporation had provided an irrevocable standby letter of credit pursuant to its sale of former properties as additional security in satisfaction of a condition imposed by the purchaser's bank. The amount of the letter of credit was $60,000 and expired January 13, 2007.

Proposed Transactions

There are no proposed transactions at the time of writing this Management's Discussion & Analysis.

Critical Accounting Policies and Accounting Estimates

The consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada (Canadian GAAP). Because the precise determination of certain assets and liabilities is dependent upon future events, the preparation of these consolidated financial statements necessarily includes the use of estimates and assumptions, which have been made using careful judgment. The Corporation believes that these estimates and assumptions are reasonable based upon the information that was available at the

time these estimates and assumptions were made. Actual results could differ from those estimates.

Goodwill

Goodwill is not amortized and is assessed for impairment at the reporting unit level. The impairment test is done annually unless circumstances arise that would potentially impair the carrying value of goodwill. Any potential goodwill impairment is identified by comparing the fair value of a reporting unit to its carrying value. If the fair value of the reporting unit exceeds its carrying value, goodwill is considered not to be impaired. If the carrying value of the reporting unit exceeds its fair value, potential goodwill impairment has been identified and must be quantified by comparing the estimate fair value of the reporting unit's goodwill to its carrying value. Any goodwill impairment will result in a reduction in the carrying value of goodwill on the consolidated balance sheet and in the recognition of a non-cash impairment charge in operating income.

Amortization Policies and Useful Lives

The Corporation amortizes property, plant and equipment and intangible assets over the estimated useful lives of the assets. In determining the estimated useful life of these assets, significant judgment by management is required. In determining these estimates, the Corporation takes into account expectation of the in-service period of these assets. The Corporation assesses the estimated useful life of these assets on an annual basis to ensure they match the anticipated life of an asset from a revenue producing perspective. If the Corporation determines that the useful life of an asset is different from the original assessment, changes to amortization will be applied prospectively.

Purchase Price Allocation

Over the past three years the Corporation has completed several acquisitions. The allocations of the purchase prices for these transactions involved determining the fair values assigned to the tangible and intangible assets acquired. The Corporation uses independent valuators to determine the fair value of intangible assets of the acquired companies. The fair value of the tangible assets is allocated based on a calculation by management.

Impact of New Accounting Pronouncements

Generally Accepted Accounting Principles ("GAAP")

CICA 3855 – Financial Instruments – Recognition and Measurement and CICA 3861 – Financial Instruments – Disclosure and Presentation

These sections prescribe standards for the classification and disclosure of financial instruments and related interest, dividends, gains and losses. Specifically, they prescribe when a financial instrument is to be recognized on the balance sheet and at what amount, either fair-value or a cost-based measure. Financial instruments include accounts receivable and payable, mortgage receivable, loans and long-term debt.

CICA 1530 – Comprehensive Income and CICA 3251 - Equity

Section 1530 establishes standards for the reporting and display of comprehensive income. Comprehensive income is the change in equity of an enterprise during a period from transactions and other events, and circumstances from non-owner sources. Other comprehensive income comprises revenues, expenses, gains and losses that are recognized in comprehensive income, but excluded from net income. Section 1530 does not address issues of recognition or measurement for comprehensive income and its components. Section 3251, "Equity" establishes standards for the presentation of equity and changes in equity during the reporting period. The requirements set out in Section 3251 are in addition to those established in Section 1530 and require that an enterprise present separately the components of equity: retained earnings, accumulated other comprehensive income, the total retained earnings, and accumulated other comprehensive income, contributed surplus, share capital and reserves.

Evaluation of Effectiveness of Disclosure Controls and Procedures

Management has established and maintained disclosure controls and procedures for the Corporation in order to provide reasonable assurance that material information relating to the Corporation is made known to it in a timely manner. The Chief Executive Officer and the Chief Financial Officer have evaluated the effectiveness of the Corporation's disclosure controls and procedures as of

December 31, 2006 and have concluded that the Corporation's disclosure controls and procedures provide reasonable assurance that material information relating to the Corporation, including its consolidated subsidiaries, would be made known to them by others within those entities.

Management is also responsible for the design of internal controls over financial reporting within the Corporation in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. Management has designed the Corporation's internal controls and procedures over financial reporting as of the end of the period covered by the annual filings and believes the design to be sufficient to provide such reasonable assurance. There have been no changes in the Corporation's internal controls over financial reporting during the year ended December 31, 2006 that have materially affected or are reasonably likely to materially affect the internal controls over financial reporting.

Risk Factors

The Corporation is exposed to various business risks, including the effect of a general downturn in the economy or a slowdown in the oil and gas or the transportation sectors. By situating the Corporation to adapt to changing market conditions, exposure to such risk will be mitigated. This will be achieved by cost cutting strategies and expansion into other sectors through new targeted marketing strategies.

The potential loss of key personnel is another risk area the Corporation faces. The shortage of skilled trades people available locally or regionally is generally expected to become increasingly problematic for businesses dependent upon qualified trades people. In response, the Corporation has expanded its recruiting and retention efforts and invested in plant technologies which reduce the reliance on skilled labour.

An unseasonably warm winter can adversely affect our service operations. In many areas, drilling activity is dependent upon prolonged periods of cold weather to freeze the ground and allow heavy equipment access to off-road locations. If the equipment is not in active use, it is unlikely to require repair. Similarly, a late spring break-up (thaw) can delay routine repair and maintenance as the equipment will be kept in use until weather conditions no longer permit. In addition to affecting oil and gas drilling activity, a warm winter may also affect the logging industry and demand for both oilfield-related products and logging trailers may be reduced.

The Oilfield Products & Services segment sells a significant amount of its product to foreign countries. International sales are subject to inherent risks such as changes in regulatory requirements, delays from customs brokers or government agencies, or other trade barriers. Although most foreign sales are paid prior to shipping, there is potential risk related to any situation, such as war and civil insurrection that could disrupt the payment of monies owed to the Corporation. Foreign competition presents a risk for the hydraulic power tong market especially as China in particular is expanding its distribution networks into North America.

The Corporation purchased the shares of Peerless in 2004, Rebel in 2005 and Inotec in 2006. If integration of new businesses does not occur as expected, or their performance is less than expected, the Corporation's revenues may be lower and operational costs higher than expected.

As a significant percentage of the Corporation's consolidated revenues are tied, directly or indirectly, to the oil and gas industry, both in Western Canada and globally, its overall financial performance is subject to any cyclicality in this industry sector. The Corporation is aggressively pursuing growth opportunities in the oil sands in Fort McMurray, Alberta.

The Corporation has various credit facilities, some of which have variable interest rates. Increases in the general level of interest rates will increase the Corporation's borrowing costs and may impact ability to service the debt. The Corporation continues to take a conservative approach to debt financing.

Outlook for 2007

The Corporation's continued implementation of "lean manufacturing" processes was a major factor in 2006 and has begun to show positive results. We are committed to continuously improving efficiencies and moving ever closer to our goal of becoming centres of excellence for manufacturing. We believe our experiences with lean implementations will be an advantage in any manufacturing businesses we may acquire.

The end of 2006 showed signs of a contraction in the conventional oil and gas activity in Western Canada. This reduced drilling activity has carried into 2007. Drilling activities in Western Canada for natural gas has slowed. It is our expectation that the Trailer Manufacturing segment and Rebel will be most affected by this slow down due to the concentration of sales that are generated by customers in this industry. We will however take steps to ensure that the year as a whole is not substantially different from 2006. We see little change in our Truck & Trailer Products & Services segment as its customers are more diverse than the Trailer Manufacturing segment. Any decreases experienced by the Trailer Manufacturing segment and Rebel should be offset by increases in our Oilfield Products & Services segment specifically at Farr and Inotec. Farr operates globally and has not seen any decrease in its order book. In fact, they have a record order book on hand. Inotec will be recording results for a full year in 2007 compared to five months in 2006 and we intend to increase our current non-conventional oil sands sales by expanding our wear coatings and hydraulics business in Fort McMurray, Alberta.

Forward Looking Statements

Certain statements in this management's discussion and analysis may constitute "forward looking statements" and although management of the Corporation believes that its expectations are based on reasonable assumptions, it can give no assurance that its expectations will be achieved. Such forward looking statements involve risks, uncertainties and other factors which may cause actual results, performance or achievements of the Corporation to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements.

The Corporation does not undertake to update any forward looking statements that are contained herein except in accordance with applicable securities laws.

Other Information

Additional information relating to the Corporation, including the Corporation's Annual Information Form for the year end December 31, 2006 is available on SEDAR at www.sedar.com.

Consolidated Financial Statements

Management's Statement of Responsibility

March 8, 2007

Management is responsible for the preparation and presentation of the consolidated financial statements and all other information in the Annual Report. The financial statements have been prepared in accordance with generally accepted accounting principles in Canada. Financial and operating data presented elsewhere in the Annual Report are consistent with the information contained in the financial statements.

Management maintains a system of internal controls which provides reasonable assurance that the assets of the Company and its subsidiaries are safeguarded and which facilitates the preparation of timely, relevant and reliable financial information which reflects, when necessary, Management's best estimates and judgements based on informed knowledge of the facts.

The Board of Directors, acting through the Audit Committee, is responsible for determining that Management fulfills its responsibilities in the preparation of financial statements and the financial control of operations.

The Audit Committee has reviewed the consolidated financial statements and Management's Discussion and Analysis with Management and have recommended their approval to the Board of Directors. The independent auditors have unrestricted access to the Audit Committee.

The financial statements have been examined by PricewaterhouseCoopers, LLP, Chartered Accountants, and their report follows.

Jim Rakievich
President and Chief Executive Officer

Auditors' Report

March 8, 2007

We have audited the consolidated balance sheets of McCoy Corporation as at December 31, 2006 and 2005 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements.

An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Edmonton, Alberta

Consolidated Balance Sheets

As at December 31, 2006 and 2005	2006 $	2005 $
Assets		
Current assets		
Cash	1,152,641	874,869
Accounts receivable	19,046,800	11,030,214
Inventories (note 4)	25,910,725	16,570,310
Future income taxes (note 13)	803,230	717,480
Prepaid expenses and deposits	307,463	299,121
	47,220,859	29,491,994
Mortgage receivable (note 19(a))	700,000	700,000
Property, plant and equipment (note 5)	17,868,665	7,889,476
Future income taxes (note 13)	–	606,688
Intangibles (note 6)	3,287,535	750,360
Goodwill (notes 2 and 3(h))	13,210,823	2,497,101
	82,287,882	41,935,619
Liabilities		
Current liabilities		
Bank indebtedness (note 7)	8,832,282	4,507,213
Accounts payable and accrued liabilities	20,997,741	13,937,104
Income taxes payable	1,796,620	1,025,830
Floor plan financing (note 8)	2,178,500	1,334,500
Current portion of mortgage payable (note 9)	150,000	150,000
Current portion of obligations under capital lease (note 10)	1,027,551	431,551
Current portion of term loan (note 11)	1,200,000	–
Current portion of subordinated debt (note 12)	1,200,000	–
	37,382,694	21,386,198
Mortgage payable (note 9)	1,012,500	1,162,500
Obligations under capital lease (note 10)	1,778,669	651,242
Term loan (note 11)	4,400,000	–
Subordinated debt (note 12)	4,400,000	–
Future income taxes (note 13)	2,013,791	–
Deferred gain (note 19(a))	1,139,719	1,258,991
	52,127,373	24,458,931
Commitments and contingencies (note 16)		
Shareholders' Equity		
Share capital (note 14)	18,628,591	13,744,788
Contributed surplus (note 14)	1,117,108	429,350
Retained Earnings	10,414,810	3,302,550
	30,160,509	17,476,688
	82,287,882	41,935,619

Approved by the Board of Directors

Director

Director

Consolidated Statements of Retained Earnings

For the years ended December 31, 2006 and 2005	2006 $	2005 $
Balance – Beginning of year	**3,302,550**	(2,048,167)
Net earnings for the year	**7,864,857**	5,890,476
Dividends paid	**(752,597)**	(539,759)
Balance – End of year	**10,414,810**	3,302,550

Consolidated Statements of Earnings

For the years ended December 31, 2006 and 2005	2006 $	2005 $
Revenue	**147,950,782**	107,083,753
Cost of sales	**103,417,252**	74,833,796
Gross profit	**44,533,530**	32,249,957
Expenses		
Salaries and commissions	**17,715,872**	13,274,001
Operations	**8,958,827**	6,591,058
Amortization	**2,525,604**	1,492,910
Interest on debt	**1,298,413**	738,616
Selling	**876,231**	818,676
Stock-based compensation	**630,271**	275,085
Corporate services	**445,956**	78,855
(Gain) loss on foreign exchange	**(104,929)**	9,456
	32,346,245	23,278,657
Earnings before income taxes	**12,187,285**	8,971,300
Income taxes (note 13)		
Current	**3,435,059**	1,752,445
Future	**887,369**	1,328,379
	4,322,428	3,080,824
Net earnings for the year	**7,864,857**	5,890,476
	$	$
Earnings per share (note 15)		
Basic	**0.42**	0.33
Diluted	**0.40**	0.31

Consolidated Statements of Cash Flows

For the years ended December 31, 2006 and 2005	2006 $	2005 $
Cash provided by (used in)		
Operating activities		
Net earnings for the year	7,864,857	5,890,476
Items not affecting cash		
Amortization	2,525,604	1,492,910
Future income taxes	887,369	1,328,379
Stock-based compensation	630,271	275,085
Amortization of deferred gain	(100,563)	(102,080)
Gain on sale of property, plant and equipment	(15,660)	–
Cash flow from operations before the following	11,791,878	8,884,770
Net change in non-cash working capital items	(9,756,798)	(424,789)
	2,035,080	8,459,981
Financing activities		
Net proceeds of bank indebtedness for acquisition (note 2)	–	3,661,648
Net proceeds (repayment) of bank indebtedness	4,325,069	(3,435,245)
Repayment of obligations under capital lease	(652,756)	(394,600)
Repayment of mortgage	(150,000)	(150,000)
Repayment of floor plan financing	(1,065,750)	(2,584,000)
Proceeds from floor plan financing	1,909,750	3,674,500
Proceeds on term loan	6,000,000	–
Repayment on term loan	(400,000)	–
Proceeds on subordinated debt	6,000,000	–
Repayment on subordinated debt	(400,000)	–
Repayment of advances from related parties	–	(4,143,937)
Dividends paid	(752,597)	(539,759)
Retirement of shares	(8,375)	–
Issuance of share capital	609,665	601,680
	15,415,006	(3,309,713)
Investing activities		
Purchase of property, plant and equipment	(4,661,263)	(1,624,816)
Business acquisition (note 2)	(12,568,401)	(3,661,648)
Cash acquired on business acquisitions	–	528,932
Proceeds from sale of property, plant and equipment	57,350	7,500
	(17,172,314)	(4,750,032)
Increase in cash	277,772	400,236
Cash – Beginning of year	874,869	474,633
Cash – End of year	1,152,641	874,869
Supplementary information		
Income taxes received	17,544	–
Income taxes paid	2,735,901	544,574
Interest received	382,826	279,586
Interest paid	1,131,628	773,082

Notes to the Consolidated Financial Statements

1 Nature of Operations

McCoy Corporation ("McCoy" or the "Corporation") provides trailer manufacturing, oilfield products & services and truck & trailer products & services to a variety of customers primarily in Alberta and British Columbia.

2 Business Acquisitions

a) The Corporation acquired 100% of the issued and outstanding shares of Inotec Coatings and Hydraulics Inc. ("Inotec") on August 1, 2006. The acquisition has been accounted for using the purchase method and the financial statements include operating results of Inotec from August 1, 2006.

Fair value of net assets acquired for cash:

	$
Current assets	4,838,735
Property, plant and equipment	4,929,356
Intangibles	3,116,000
Goodwill	10,240,777
Current liabilities	(4,569,106)
Future income taxes	(1,647,361)
Fair value of net assets acquired	16,908,401

The purchase price was funded as follows:

	$
Cash	12,568,401
McCoy shares and warrants issued	4,340,000
	16,908,401

b) On May 31, 2005, McCoy purchased 100% of the shares of Rebel Metal Fabricators Ltd. ("Rebel").

The acquisition has been accounted for using the purchase method and the financial statements include operating results of Rebel since May 31, 2005.

Fair value of net assets acquired:

	$
Current assets (includes cash acquired of $528,932)	2,063,455
Property, plant and equipment	88,890
Intangibles	961,000
Goodwill	2,238,031
Current liabilities	(1,366,728)
Future income taxes	(323,000)
Fair value of net assets acquired	3,661,648

The purchase price was funded as follows:

	$
Bank indebtedness (note 7)	3,661,648

Included in the purchase agreement is a provision for contingent consideration. The contingent consideration is dependent upon future operations and is calculated and paid based on 17.5% of the earnings of Rebel before tax for each of 2005, 2006 and 2007. The contingent payment cannot be determined beyond a reasonable doubt at the balance sheet date and thus is recognized as an additional cost of the purchase as determined in each year. The contingent consideration accrued in 2006 is $472,945 (2005 – $213,502) which is included in accounts payable at December 31, 2006.

3 Significant accounting policies

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The recoverable value of goodwill, future income taxes and the amortization of intangibles and property, plant and equipment are the more significant items subject to estimate in these financial statements. Actual results could differ from those estimates. These financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

a) Basis of consolidation

These consolidated financial statements include the accounts of McCoy Corporation, its wholly owned subsidiaries Peerless Limited, Rebel and Inotec and its proportionate share of the assets, liabilities, revenue and expenses of a 50% joint venture interest in Prairie Truck Ltd. (collectively the "Corporation"). All inter-company transactions and balances are eliminated on consolidation.

b) Revenue recognition

The Corporation recognizes truck and trailer services revenue as services are performed. Product sales are recognized at the time of title transfer. Manufacturing revenue is recognized on shipment and title transfer.

c) Cash and equivalents

Cash consists of cash on deposit and short-term investments with an original maturity of three months or less at the date of purchase.

d) Inventories

Raw materials inventory is recorded at the lower of cost, as determined on a first in, first out basis, and replacement cost. Truck inventory and inventories of finished goods and work-in-progress are recorded at the lower of cost, as determined on a first in, first out basis, and net realizable value.

e) Property, plant and equipment

Property, plant and equipment is recorded at cost. Amortization is provided for using the straight-line method over their estimated useful lives, as follows:

Buildings	10 – 40 years
Equipment	
Machinery	3 – 15 years
Office	3 – 12.5 years
Automotive	3 – 12.5 years
Computer equipment and software	1 – 5 years
Deferred development costs	3 – 4 years
Leasehold improvements	Term of related lease

Development costs are expensed in the period incurred unless technical and market viability of a development project has been established. Deferred development costs are amortized on a straight-line basis over the expected use of the product. Amortization commences upon use of the product.

f) Intangibles

Intangibles are recorded at cost. Amortization is provided for using the straight-line method over their estimated useful lives, as follows:

Order backlog	18 months
Customer relationships	10 years
Process technology	7 years
Trade name	Indefinite life
Certification	Indefinite life

g) Asset impairment

Impairment of long-lived assets is tested when there is an indication of impairment. The impairment of long-lived assets held for use is established through a two-step process, with the first step determining when an impairment is recognized, and the second step measuring the amount of the impairment. An impairment loss is recognized when the carrying amount of a long-lived asset exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition, and is measured as the amount by which the long-lived asset's carrying amount exceeds its fair value.

h) Goodwill

Goodwill represents the difference between the purchase price, including acquisition costs of businesses acquired and the fair value of the identifiable net assets acquired. Goodwill is tested for impairment annually, or more frequently if events or circumstances indicate that the asset might be impaired. If the carrying value of a reporting unit, including the allocated goodwill, exceeds its fair value, goodwill impairment is measured as the excess of the carrying amount of the reporting unit's allocated goodwill over the implied fair value of the goodwill, based on the fair value of the assets and liabilities of the reporting unit.

At December 31, 2006, the cost of goodwill is $13,639,816 (2005 – $2,926,094) and accumulated amortization is $428,993 (2005 – $428,993).

i) Warranty provision

The Corporation provides an accrual of estimated warranty expense based on information available with respect to historic results and new product offerings.

j) Translation of foreign currencies

Transactions denominated in foreign currencies are translated at the rate in effect at the transaction date. Foreign currency denominated monetary assets and liabilities are translated at the rate in effect at the balance sheet date. Resulting foreign exchange gains or losses are included in income.

k) Earnings per share

Earnings per share is based on the weighted average number of common shares outstanding during the year. Diluted earnings per share is calculated using the treasury stock method. Under the treasury stock method, the deemed proceeds from the exercise of dilutive securities are considered to be used to acquire common shares at the average market price during the year.

l) Future income taxes

The Corporation follows the liability method of income tax allocation. Under this method, future income taxes are recognized for the future income tax consequences attributable to differences between the carrying values of assets and liabilities and their respective income tax bases. Future income tax assets and liabilities are measured using substantively enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in rates is included in earnings in the period that includes the date of substantial enactment. A valuation allowance is provided to the extent that it is more likely than not that future income taxes will not be realized.

m) Stock-based compensation

Awards of stock options to employees are accounted for in accordance with the fair value method of accounting for stock-based compensation and result in compensation expense and contributed surplus. The fair value is measured at the date the options are granted. Any consideration paid on the exercise of stock options is credited to share capital.

n) Consolidation of Variable Interest Entities ("VIEs"), AcG-15

In June 2003, the CICA issued a new accounting guideline which requires the consolidation of VIEs by the primary beneficiary. Revisions to this guideline were published by the CICA in August 2004 to harmonize with the U.S. VIE accounting standard. A VIE is an entity where (a) its equity investment at risk is insufficient to permit the entity to finance its activities without additional subordinated support from others and/or where certain essential characteristics of a controlling financial interest are not met, and (b) it does not meet specified exemption criteria. The primary beneficiary is the enterprise that will absorb or receive the majority of the VIE's expected losses, expected residual returns, or both. This guideline was effective for the Corporation's first quarter commencing January 1, 2005. The adoption of this guideline did not have any impact on the consolidated financial statements.

4 Inventories

	2006	2005
	$	$
Raw materials	**10,153,214**	6,624,750
Work-in-progress	**6,511,434**	3,564,001
Finished goods	**6,624,142**	4,731,029
Trucks	**2,621,935**	1,650,530
	25,910,725	16,570,310

5 Property, plant and equipment

			2006
	Cost $	Accumulated amortization $	Net $
Land	1,264,168	–	1,264,168
Building	3,336,582	598,903	2,737,679
Machinery and office equipment	18,376,068	6,288,818	12,087,250
Automotive equipment	1,225,599	716,737	508,862
Computer equipment and software	3,926,652	3,367,235	559,417
Leasehold improvements	1,232,844	556,985	675,859
	29,361,913	11,528,678	17,833,235
Deferred development costs	872,621	837,191	35,430
	30,234,534	12,365,869	17,868,665

			2005
	Cost $	Accumulated amortization $	Net $
Land	183,337	–	183,337
Building	2,718,686	498,111	2,220,575
Machinery and office equipment	9,722,293	5,125,618	4,596,675
Automotive equipment	887,804	668,110	219,694
Computer equipment and software	1,917,932	1,530,603	387,329
Leasehold improvements	699,086	477,832	221,254
	16,129,138	8,300,274	7,828,864
Deferred development costs	872,620	812,008	60,612
	17,001,758	9,112,282	7,889,476

Property, plant and equipment under capital lease included above has a cost of $4,265,934 (2005 – $2,105,263) and accumulated amortization of $2,740,095 (2005 – $724,453).

6 Intangibles

	2006			2005
	Cost	Accumulated amortization	Net	Net
	$	$	$	$
Customer relationships	**1,773,000**	**101,525**	**1,671,475**	223,175
Process technology	**923,000**	**54,940**	**868,060**	–
Trade name	**657,000**	**–**	**657,000**	–
Order backlog	**633,000**	**633,000**	**–**	436,185
Certification	**91,000**	**–**	**91,000**	91,000
	4,077,000	**789,465**	**3,287,535**	750,360

7 Bank indebtedness

The Corporation has an operating line of credit facility with a limit of $13,000,000 (2005 – $10,000,000), repayable on demand with interest payable monthly at prime plus 0.25%. At December 31, 2006, the rate is 6.25% (2005 – 5.25%). A general security agreement over all past and future property is pledged as collateral on this facility.

	2006	2005
	$	$
Amounts drawn on line of credit facility	**8,832,282**	4,507,213

8 Floor plan financing

Floor plan financing is for new truck inventory which, along with a general security agreement, has been pledged as collateral. Interest on the floor plan financing is payable monthly at prime. At December 31, 2006 the rate is 6.0% (2005 – 5.0%).

9 Mortgage payable

	2006	2005
	$	$
Mortgage, payable in monthly instalments of $12,500 plus interest at prime plus 1% (7% at December 31, 2006) until 2014; land and buildings with a net book value of $2,921,016 at December 31, 2006 are pledged as collateral	**1,162,500**	1,312,500
Less: Current portion	**150,000**	150,000
	1,012,500	1,162,500

The interest on the mortgage in 2006 is $83,679 (2005 – $78,052).
Principal payments required for each of the next five years are $150,000 per year.

10 Obligations under capital lease

	$
Minimum lease payments	
2007	1,173,022
2008	1,041,724
2009	849,189
	3,063,935
Less: Amount representing interest (at rates ranging from 5.43% to 8.09%)	257,715
	2,806,220
Less: Current portion	1,027,551
	1,778,669

The interest on obligations under capital lease in 2006 is $102,273 (2005 – $71,373).

11 Term loan

	2006 $	2005 $
Term debt, payable in monthly instalments of $100,000 until 2011, plus interest at prime plus 1% (7% at December 31, 2006), A general security agreement over all past and future property is pledged as collateral on this facility.	**5,600,000**	–
Less: Current portion	**1,200,000**	–
	4,400,000	–

The interest on term debt in 2006 is $160,559 (2005 – $nil).

The principal payments required for each of the next five years are as follows:

	$
2007	1,200,000
2008	1,200,000
2009	1,200,000
2010	1,200,000
2011	800,000

12 Subordinated debt

	2006 $	2005 $
Subordinated debt, payable in monthly instalments of $100,000 until 2011, plus interest fixed at 9.80% until July 31, 2007 at which time the rate will be set at the lender's floating base rate plus 5.15%, a second charge on all fixed assets including land, buildings, equipment, vehicles and inventories is pledged as collateral on this facility	**5,600,000**	–
Less: Current portion	**1,200,000**	–
	4,400,000	–

The interest on subordinated debt in 2006 is $215,815 (2005 – $nil).

The principal payments required for each of the next five years are as follows:

	$
2007	1,200,000
2008	1,200,000
2009	1,200,000
2010	1,200,000
2011	800,000

13 Income taxes

The income tax provision differs from the amounts computed by applying the combined federal and provincial income tax rate of 32.49% (2005 – 33.62%) to pre-tax income as a result of the following:

	2006 $	2005 $
Earnings before income taxes	**12,187,285**	8,971,300
Computed "expected" income taxes	**3,959,649**	3,016,151
Differences resulting from		
Different rates due to small business deduction and B.C. jurisdiction	**54,576**	15,977
Decrease in enacted tax rates	**111,861**	(87,146)
Non-deductible items	**219,957**	105,711
Other	**(23,615)**	30,131
Income taxes	**4,322,428**	3,080,824

13 Income taxes (continued)

The income tax effect of temporary differences that give rise to significant balances of the future tax assets and liabilities at the balance sheet date are summarized as follows:

	2006 $	2005 $
Future tax assets (liabilities) resulting from		
Deferred gain	**335,942**	423,270
Property, plant and equipment	**(1,069,711)**	774,486
Warranty reserve	**449,512**	308,692
Inventory obsolescence	**353,718**	181,900
Non-capital losses carried forward	**–**	352,806
Intangibles	**(953,385)**	(228,000)
Deferred development costs	**(100,514)**	(116,526)
Investment in joint venture	**(113,134)**	(109,757)
Other	**79,644**	(41,785)
Valuation allowance	**(192,633)**	(220,918)
Net future income taxes	**(1,210,561)**	1,324,168
Less: Current portion	**803,230**	717,480
	(2,013,791)	606,688

14 Share capital

a) Authorized

Unlimited number of common, voting shares

Unlimited number of preferred, non-voting shares

b) Issued

	2006		2005	
	Common shares \#	Amount $	Common shares \#	Amount $
Balance – Beginning of year	**18,303,305**	**13,744,788**	17,649,100	13,005,695
Shares issued on exercise of stock options	**268,333**	**367,178**	654,205	739,093
Shares issued on exercise of warrants	**200,000**	**400,000**	–	–
Shares issued on acquisition of Inotec	**550,000**	**4,125,000**	–	–
Shares retired on normal course issuer bid	**(1,300)**	**(8,375)**	–	–
Balance – End of year	**19,320,338**	**18,628,591**	18,303,305	13,744,788

Shares issued on the exercise of stock options resulted in a charge of $157,513 (2005 – $137,414) to contributed surplus.

14 Share capital (continued)

c) Warrants

At December 31, 2006, there were 200,000 (2005 – 200,000) warrants outstanding. The warrants had an exercise price of $2.00 per share and were set to expire on June 25, 2006. The warrants were exercised by Foundation Equity Corporation on March 17, 2006.

On July 31, 2006, 200,000 warrants were issued for the purchase of Inotec. The warrants were priced at $8.69 which represents 110% of the volume weighted average trading price of McCoy shares for the 20-day period ending prior to closing. If unexercised in whole or in part, the warrants will expire on July 31, 2008.

The following weighted average assumptions were used in valuing the warrants issued on the purchase of Inotec:

Annualized volatility	30%
Risk free interest rate	4.0%
Expected life of options	2 years
Dividend	2%

d) Options

The Corporation stock option plan for employees is administered by the Compensation Committee, which is a subcommittee of the Board of Directors. The Compensation Committee designates eligible participants to be included under the plan and designates the number of options and share price of the options, subject to applicable securities laws and stock exchange regulations.

Significant terms of the stock option plan include: the aggregate number of common shares issuable under the plan is no greater than 10% of the common shares issued and outstanding from time to time on a non-diluted basis; no more than 5% of outstanding shares may be reserved for options granted to any one person; no more than 10% of outstanding shares may be reserved for options granted to insiders; the options vest over a period specified by the plan administrator and the maximum term of options issued under the plan cannot exceed five years. The exercise price of options is determined by the Board of Directors, but cannot be lower than the market price of shares on the last trading day preceding the grant date.

14 Share capital (continued)

The following reflects activity under the stock option plan from December 31, 2004 through December 31, 2006, and the weighted average exercise prices.

	Number of common shares under option #	Weighted Average Exercise Price $
Outstanding – December 31, 2004	1,619,707	1.08
Exercised	(654,205)	0.92
Cancelled	(56,667)	2.39
Outstanding – December 31, 2005	908,835	1.11
Granted	515,000	7.13
Exercised	(268,333)	0.78
Cancelled	(100,000)	7.25
Outstanding – December 31, 2006	1,055,502	3.44
Exercisable – December 31, 2006	433,834	1.15
Exercisable – December 31, 2005	487,167	0.83

The following options are outstanding as at December 31, 2006:

Expiry date	Remaining contractual life (months) #	Number of common shares under option #	Exercise price $
December 4, 2007	12	315,500	0.40
December 23, 2007	12	166,668	0.95
November 10, 2009	35	158,334	3.15
March 14, 2011	51	340,000	7.25
December 6, 2011	59	75,000	6.45
Total outstanding		1,055,502	

14 Share capital (continued)

The Corporation used the Black-Scholes option pricing model to estimate the fair value of the options granted to employees in 2006. No options were granted in 2005. The following weighted average assumptions were used:

Annualized volatility	59%
Risk free interest rate	4.0%
Expected life of options	3 years
Dividend	2%

Application of the fair value method resulted in a charge to stock-based compensation expense of $630,271 (2005 – $275,085) with corresponding credits to contributed surplus.

e) Contributed surplus

The following is a summary of activity during the year.

	2006	2005
	$	$
Contributed surplus – Beginning of year	**429,350**	291,679
Warrants issued on business acquisition	**215,000**	–
Stock-based compensation expense	**630,271**	275,085
Exercise of stock options	**(157,513)**	(137,414)
Contributed surplus – End of year	**1,117,108**	429,350

15 Earnings per share

			2006			2005
	Earnings (numerator)	**Shares (denominator)**	**Per share amount**	Earnings (numerator)	Shares (denominator)	Per share amount
	$	**#**	**$**	$	#	$
Basic earnings per share						
Earnings available to common shareholders	**7,864,857**	**18,772,839**	**0.42**	5,890,476	17,936,576	0.33
Diluted earnings per share						
Dilutive effect of warrants	**–**	**31,012**		–	123,518	
Dilutive effect of options	**–**	**701,478**		–	1,032,143	
	–	**732,490**		–	1,155,661	
Earnings available to common shareholders	**7,864,857**	**19,505,329**	**0.40**	5,890,476	19,092,237	0.31

16 Commitments and contingencies

a) Commitments

The Corporation is committed to payments under operating leases for premises and equipment as follows:

	$
2007	2,606,696
2008	2,311,105
2009	2,153,367
2010	2,030,523
2011	1,752,143

Also see note 19 for commitments relating to 2012 and beyond.

b) Contingencies

The Corporation is a co-defendant in a lawsuit alleging negligence in the installation of tire pressure control systems. The litigation relating to the Statement of Claim for $1,570,000 is in its preliminary stages and the outcome is not currently determinable. A loss, if any, would be partially covered by the Corporation's insurance.

17 Financial instruments

Fair value

The fair values of cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, and floor plan financing approximate their carrying values due to the short terms to maturity.

The fair values of the mortgage receivable, mortgage payable, subordinated debt and obligations under capital leases approximate their carrying values since their stated interest rates approximate the market interest rates at December 31, 2006 and 2005.

Interest rate risk

The Corporation's debt consists of loans that are subject to interest rated fluctuation. If there is a 1% change in the prime lending rate the Corporation would incur approximately $234,000 in annual interest reduction or increase.

Credit risk

The Corporation is exposed to credit risk through its accounts receivable. This risk is minimized due to the Corporation's large customer base. The Corporation manages credit risk by following a program of credit evaluation and by limiting the amount of customer credit where deemed necessary.

18 Financial guarantees

The Corporation issued an irrevocable standby letter of credit pursuant to the sale of land and buildings as additional security that was required by the purchaser's bank. The amount of the letter of credit is $60,000 and it expires January 13, 2007.

19 Related party transactions

a) Sale-leaseback

On May 1, 2003, the Corporation sold all of its then existing land and buildings for the amount of $5,793,000, measured at appraised fair market values. A vendor take-back second mortgage for $700,000 was granted to the purchaser. The sale resulted in a gain of $1,531,206, which will be recognized over 15 years, which is the term of the leases described below. Amortization of $100,563 is included in income during 2006 (2005 – $102,080). The vendor take-back mortgage bears interest at 7.36% per annum payable on the last day of each month from May 2003 to April 2013. Interest revenue in the amount of $51,520 has been recorded in the financial statements for 2006 (2005 – $51,520).

Also on May 1, 2003, the Corporation entered into lease agreements with the purchaser, whereby the buildings will be leased for a period of 15 years. Minimum annual lease payments are $680,620 for the first five years, $751,459 for the following five years and are to be renegotiated at market rates for the last five years of the lease.

The purchaser and lessor is a partnership owned by certain directors and an officer of the Corporation and certain directors of Foundation Equity Corporation.

b) Operating lease

In February 2003, the Corporation entered into a lease for another building from another partnership owned by certain directors and an officer of the Corporation and certain directors of Foundation Equity Corporation. The minimum annual lease payments are $232,000 for the next 14 years.

In October 2004, the Corporation entered into a lease for another building from a wholly owned subsidiary of Foundation Equity Corporation. Minimum annual lease payments are $262,500 for the next five years, $288,750 for the following five years and are to be renegotiated at market rates for the last five years of the lease.

20 Interest in joint venture

The major components of the Corporation's 50% proportionate interest in Prairie Truck Ltd., included in these consolidated financial statements are as follows:

	2006	2005
	$	$
Current assets	**4,767,321**	3,694,408
Total assets	**4,951,360**	3,920,131
Current liabilities	**2,678,560**	1,823,062
Total liabilities	**2,683,657**	1,823,062

	2006	2005
	$	$
Revenue	**10,697,335**	9,488,500
Cost of sales	**8,639,918**	7,454,735
Gross profit	**2,057,417**	2,033,765
Expenses	**1,308,309**	1,162,810
	749,108	870,955
Income taxes	**24,300**	28,334
Net earnings for the year	**724,808**	842,621
Cash provided by (used in)		
Operating activities	**(684,946)**	(67,994)
Financing activities	**834,000**	1,090,500
Investing activities	**(6,804)**	(65,270)

21 Segment disclosures

The Corporation has three reportable segments in which it operates: Truck & Trailer Products & Services, Trailer Manufacturing and Oilfield Products & Services. The Corporation's reportable segments offer different products and services and are managed separately due to different technology and marketing strategies. The Corporation has sales with a wide variety of customers primarily in the provinces of Alberta and British Columbia, Canada.

The accounting policies of the segments are the same as those described in note 2. The Corporation evaluates segment performance based on earnings before interest and income taxes. The Corporation accounts for inter-segment sales and transfers as if the sales or transfers were to third parties. No single customer accounts for more than 10% of total revenue.

The Corporation serves the general transportation, construction and petroleum industries by providing heavy truck parts, repair and maintenance services; manufacturing and distributing heavy duty trailers and manufacturing oilfield products such as hydraulic power tongs for use primarily in the oil and gas industry.

					2006
	Truck & Trailer Products & Services $	Trailer Manufacturing $	Oilfield Products & Services $	Inter-segment eliminations $	Total $
Sales by segment					
Total external sales	40,356,014	65,351,477	42,243,291	–	147,950,782
Total inter-segment sales	1,631,067	1,460,543	–	(3,091,610)	–
Total sales	41,987,081	66,812,020	42,243,291	(3,091,610)	147,950,782
Amortization	619,969	639,744	1,265,891	–	2,525,604
Other expenses	38,424,892	57,599,541	36,662,234	(3,091,610)	129,595,057
Earnings before interest, income taxes and corporate charges	2,942,220	8,572,735	4,315,166	–	15,830,121
Corporate charges	781,474	781,474	781,475	–	2,344,423
Earnings before interest and income taxes	2,160,746	7,791,261	3,533,691	–	13,485,698
Interest on debt					1,298,413
Earnings before income taxes					12,187,285
Total identifiable assets	19,077,395	29,590,470	33,620,017		82,287,882
Additions to property, plant & equipment	773,864	2,249,209	4,015,373		7,038,446

21 Segment disclosures (continued)

	Truck & Trailer Products & Services	Trailer Manufacturing	Oilfield Products & Services	Inter-segment eliminations	Total
					2005
	$	$	$	$	$
Sales by segment					
Total external sales	36,117,485	49,916,658	21,049,610		107,083,753
Total inter-segment sales	301,511	954,695	510	(1,256,716)	–
Total sales	36,418,996	50,871,353	21,050,120	(1,256,716)	107,083,753
Amortization	420,837	458,207	614,366		1,492,910
Other expenses	34,223,963	43,710,230	18,564,634	(1,256,716)	95,242,111
Earnings before interest, income taxes and corporate charges	1,774,196	6,702,916	1,871,120	–	10,348,732
Corporate charges	212,939	212,938	212,939	–	638,816
Earnings before interest and income taxes	1,561,257	6,489,978	1,658,181	–	9,709,916
Interest on debt					738,616
Earnings before income taxes					8,971,300
Total identifiable assets	11,067,943	20,439,822	10,427,854		41,935,619
Additions to property, plant & equipment	338,900	692,628	1,332,675		2,364,203

	2006	2005
	$	$
Additions to property, plant and equipment per above	**7,037,446**	2,364,203
Property, plant and equipment under capital lease additions	**(2,376,183)**	(739,387)
Purchase of property, plant and equipment per consolidated statement of cash flows	**4,661,263**	1,624,816

Geographic information

	2006			2005
	Revenue	**Property, plant and equipment and goodwill**	Revenue	Property, plant and equipment and goodwill
	$	**$**	$	$
Canada	**124,752,354**	**31,079,488**	94,428,560	10,386,577
US	**15,339,268**	**–**	7,068,010	–
Other countries	**7,859,160**	**–**	5,587,183	–
	147,950,782	**31,079,488**	107,083,753	10,386,577

Revenue is allocated to geographic regions based on the customer location.

Corporate Information

Auditors
PricewaterhouseCoopers LLP
Edmonton, Alberta

Bankers
The Bank of Nova Scotia
Edmonton, Alberta

Corporate Counsel
Davis & Company LLP
Calgary, Alberta

Transfer Agent and Registrar
Valiant Trust Company
Edmonton, Alberta

Stock Exchange – The Toronto Stock Exchange
Trading Symbol – MCB

Share Information
Outstanding shares as at December 31, 2006: 19,320,338
Dividend Policy: Quarterly

Board of Directors
Kerry Brown, Chairperson
Frank Burdzy
Terry Chalupa
John Howard
David Macdonald
Terry McCoy
Jim Rakievich

Officers
Jim Rakievich, President and Chief Executive Officer
Kerry Brown, Chief Financial Officer
Peggy Robertson, Vice President, Corporate Affairs and Corporate Secretary
Milica Stolic, Director of Finance

All Shareholders and interested parties are cordially invited to join the Board of Directors and senior management team at the Annual General Meeting on Thursday, May 10, 2007.

The meeting and informal reception will be held at The Sutton Place Hotel, 10235 – 101 Street, Edmonton, Alberta at 4:00 o'clock in the afternoon.

McCoy Corporation

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